

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 714 – HB 1735**

March 2, 2009

**SUMMARY OF BILL:** Increases the taxes levied on intoxicating liquors and cigarettes to fund crime prevention grants.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue - \$63,509,700/Recurring**  
**Increase State Expenditures - \$88,000/One-Time**  
**\$190,000/Recurring**

**Increase Local Revenue - \$1,483,900/Recurring**

Assumptions:

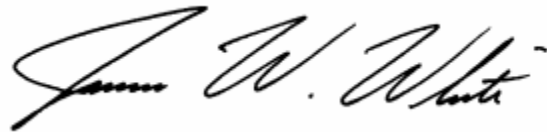
- The wine tax is increased from \$1.21 to \$1.45 per gallon. Wine tax collections for FY07-08 were approximately \$10,186,000. The number of gallons taxed is estimated to be 8,418,182 ( $\$10,186,000 / \$1.21 = 8,418,182$ ). Wine consumption remains constant. The increase to wine tax collections is estimated to be \$2,020,400 per year ( $8,418,182 \times \$0.24 \text{ increase} = \$2,020,364$ ).
- The tax on distilled spirits is increased from \$4.40 to \$4.84 per gallon. Liquor tax collections for FY07-08 were approximately \$32,029,000. The number of gallons taxed is estimated to be 7,279,318 ( $\$32,029,000 / \$4.40 = 7,279,318$ ). Liquor consumption remains constant. The increase to liquor tax collections is estimated to be \$3,202,900 per year ( $7,279,318 \times \$0.44 \text{ increase} = \$3,202,900$ ).
- The tax on mixed drinks is increased from 15 percent to 16 percent of the sales price. Mixed drink tax collections for FY07-08 were approximately \$54,978,000. Taxable sales of mixed drinks is estimated to be \$366,520,000 ( $\$54,978,000 / 15\% = \$366,520,000$ ). Mixed drinks consumption remains constant. The increase to mixed drinks tax collections is estimated to be \$3,665,000 per year ( $\$366,520,000 \times 1.0\% \text{ increase} = \$3,665,200$ ).

- The beer barrelage tax is increased from \$4.29 to \$4.72 per barrel. Beer tax collections for FY07-08 were approximately \$18,084,000. The number of barrels taxed is estimated to be 4,215,385 ( $\$18,084,000 / \$4.29 = 4,215,385$ ). Beer consumption remains constant. The increase to beer barrelage tax collections is estimated to be \$1,812,600 per year ( $4,215,385 \times \$0.43 \text{ increase} = \$1,812,615$ ).
- The tobacco tax on cigarettes is increased from 62 cents to 80 cents per pack. Tobacco tax collections from cigarettes for FY07-08 were approximately \$260,047,000. The number of packs taxed is estimated to be 419,430,645 ( $\$260,047,000 / \$0.62 = 419,430,645$ ).
- Given that the federal tax on cigarettes was recently increased by 62 cents to help fund the State Children's Health Insurance Program (SCHIP), and given that this bill increases the state tobacco tax on cigarettes another 18 cents per pack, consumption of cigarettes is expected to decrease.
- Assuming the final price of cigarettes to the consumer averages \$4.00 per pack (after all taxes) under current law, the total 80 cent increase (62 federal + 18 state), represents a 20 percent increase in price to the consumer. Assuming an average elasticity rate for cigarettes of -0.4, the decrease in consumption of cigarettes would be approximately eight percent ( $20.0\% \times -0.4 = -8.0\%$ ).
- Therefore, the consumption of cigarettes is estimated to decrease to 385,876,193 packs per year ( $419,430,645 \times (1.0 - 0.08) = 385,876,193$ ).
- The increase to tobacco tax collections is estimated to be \$48,654,000 per year [ $(385,876,193 \times \$0.80) - (419,430,645 \times \$0.62) = \$48,653,955$ ]
- The total increase of state revenue is estimated to be \$59,354,900 per year ( $\$2,020,400 + \$3,202,900 + \$3,665,000 + \$1,812,600 + \$48,654,000 = \$59,354,900$ ).
- This bill apportions all new revenue as follows: 40 percent to fund crime preventive grants, 30 percent to fund grants authorized by the Drug Court Treatment Act of 2003, and 30 percent to fund community mental health centers and other related programs.
- Approximately \$23,741,900 would be apportioned to fund crime preventive grants; \$17,806,500 would be apportioned to fund grants authorized by the Drug Court Treatment Act of 2003; and \$17,806,500 would be apportioned to fund community mental health centers and other related programs.
- Given that state and local sales tax is computed on total retail price, which includes all alcoholic beverage tax and cigarette tax, there would be an increase to state and local sales tax as a result of this bill.
- The current state sales tax rate is seven percent.
- The increase to state sales tax is estimated to be \$4,154,800 per year ( $\$59,354,900 \times 7.0\% = \$4,154,843$ ).
- The average local options sales tax is estimated to be 2.5 percent.

- The increase to local government revenue is estimated to be \$1,483,900 per year ( $\$59,354,900 \times 2.5\% = \$1,483,872$ ).
- One-time state expenditures for computer and software modifications estimated to be \$88,000.
- According to the Department of Revenue, the Department would require three additional Regulatory Officer positions to implement the provisions of this bill. The associated increase to recurring state expenditures is estimated to be \$190,000 per year (\$98,700 salaries, \$55,300 benefits, \$36,000 other).

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "White".

James W. White, Executive Director

/rnc